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THE ROLE AND IMPORTANCE OF MANAGEMENT INFORMATION, AUDIT AND COLLECTION IN TAX ADMINISTRATION

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I can only give a general view of this subject as I consider it too wide to be covered in one paper. And as the form of a tax administration is a reflection of the political, social and economic circumstances of that administration area, I will confine myself to the particular political, cultural and social characteristics of Nigeria and its form of tax administration in assessing the role and importance of management information, audit and collection functions.

I do not know to what extent I can assume that you are all aware of the kind of political and economic society we have in Nigeria and of the stage of our technological development. We are politically a free people, enjoying a great deal of religious freedom. There is also a high degree of private ownership of means of production and distribution but there is also an element of planned economy in which certain essential social services are publicly planned and executed. However, we are technologically underdeveloped or, to use a milder expression, our technology is still developing and so although we are aware of the possibilities of the automatic data processing (ADP) technique, its application to our tax administration is still at the developmental stage.

Finally, we operate a Federal System of Government in which, naturally the taxing powers are shared between the National and State Governments.

SHARING OF TAXING POWERS

The state Governments have a statutory responsibility for the administration of Personal Income Tax Laws in respect of individuals residing within their respective territories while the National Government, through the agency of the Federal Board of Inland Revenue (FBIR), administers exclusively the tax laws of corporate bodies including the oil winning companies throughout the whole country. Additionally, since the past one decade, the FBIR has assumed responsibility for the taxation of members of the armed forces (Army, Navy and Air Force and all the civilians in their employment and payroll), Ministry of External Affairs personnel, individuals in receipt of Nigerian pension payable abroad, and non-resident shareholders of Nigerian companies. Finally, as from the 1979 constitution, the FBIR has also acquired tax jurisdiction over the Nigerian Police personnel and the residents of the Federal Capital, Abuja.

The author of this paper is a Chief Inspector of Taxes in one of the Area Offices of the Department of Inland Revenue, so the views expressed here may be regarded as a product of his experiences in operating the tax laws administered by FBIR. However, they are his personal views and do not reflect those of the Board.

STRUCTURE OF FEDERAL TAX ADMINISTRATION

The legal responsibility of the administration of the federally collected taxes, as mentioned above, is vested in the Federal Board of Inland Revenue. The Board sits about four times a year. However, the day to day running of its services is delegated to its executive arm, the Federal Department of Inland Revenue (FDIR).

The current FDIR structure is organised into the following two levels:

(i) The Headquarters or Head Office situated in Lagos;

and (ii) Six functional Divisions and Branches also situated in Lagos and 16 Area Offices located at various centres throughout the country.

The chart at the end of this paper shows this organisation in a diagrammatic form.

HEADQUARTERS

The Head Office comprises the Director of Inland Revenue who is the Chief Executive of the Department, the Deputy Directors and the Legal Adviser. This Group constitutes the top management of the Department and carries out the functions of tax policy formulation, proposal and drafting of tax legislation, guidance and direction on technical matters, interpretation of tax laws and general administration of the Department.

DIVISIONS AND AREA OFFICES

These are the enforcement units comprising the tax Inspectors, Investigators, Intelligence Officers and Collectors. Their functions are essentially the same and include the examination of tax returns to include balance sheets and accounts of companies, professionals, traders etc., determination of the amount subject to tax and the raising of tax assessments thereon. However the Investigating Officers rather confine themselves to a more detailed re-auditing and investigation of specific cases referred to them by the tax Inspectors or from information obtained through third party sources in which frauds or other tax offences have been suspected or alleged.

By the same token, the officers designated Inspecting Officers perform fact-finding oriented function concentrating rather on re-examination of the cases done by their colleagues with the purpose of checking corruption in the Area Offices. Those deployed as Intelligence Officers perform the duties of an Information Services Centre, collecting and circulating information obtained for tax purposes from government departments and parastatalsand disseminating the same to the tax enforcement units. Finally, the collectors, as the name implies, carry out the final duties of collecting and accounting for tax revenue.

TAX AUDIT FUNCTION

From the last third of page 3 above, I have been introducing the subject matter of audit function. It has been traditionally considered as one of the basic elements of tax administration and recognised as the review and examination of tax payer's books and records to determine if his taxable income has been accurately stated in his return. Essentially it involves that a taxpayer submits a tax return, provides information as to his occupation, income sources, and amount of income from each source. In respect of traders and other self-employed persons, professionals and companies, copies of balance sheets and profit and loss accounts are usually attached to the returns. These returns and the supporting statements are supposed to provide the tax administration with all the information they need and can rely on to determine the amount of the taxpayer's income subject to taxation.

Thus the main role of tax audit is examination and re-examination of the taxpayer's returns, statements and accounts in order to determine, in accordance with the relevant tax law, the correct amount of his income subject to taxation. This is an onerous task. The taxpayer alone knows all the facts relating to the income he has earned which will form the basis of his tax assessment and payment. If he discloses them correctly on his tax form and supporting statements, his correct tax liability will be determined. If he does not, as is often the case with a typical Nigerian taxpayer whose level of compliance is traditionally low, the tax administration's difficulties can be really great.

TAX AUDIT AND LACK OF COMPLIANCE

Nigerian taxpayer is yet to learn to voluntarily disclose all the facts about his income for tax purposes. It is still the responsibility of tax audit function to try to reach at these hidden facts and to be able to do this the tax auditor requires a good third party information network. Where the taxpayer's income is a subject to withholding tax at source the problem of auditing is less not only because tax had been withheld by the payer and probably paid before the associated income is reported on the taxpayer's return and so there is a good prospect for voluntary compliance to be expected, but also because the system that imposes the withholding of tax often imposes direct reporting obligations on the payers of income. Thus the tax administration has a pre-information of the income before the taxpayer returns it on his form. In the circumstances, the audit function which dependes on good information to thrive has no problems. However, with regard to the self-employed persons, professionals, contractors and similar taxpayers, the position is different. Third-party information on their income is scanty and compliance is understandably low.

In advanced and older tax administrations such as those of Canada and United States the taxpayer compliance is high. There, the self-assessment principle also exists. The taxpayer computes his tax liability, files his returns and pays the tax due on the prescribed date. Because of the heavy penalties prescribed for understatement of income, taxpayers sometimes prefer to overstate their tax liabilities and to claim repayments later, rather than understate their liabilities and face the wrath of the law. The basic principle in examining returns and accounts under that system is to assume that the returns are correct until otherwise determined.

In our own audit procedure, probably because of our expereince of general low level of compliance and more importantly the training we receive which is greatly biased against tax delinquency, the presumptions in examining tax returns are basically that they are not correct. In that circumstance, we shift to the taxpayer the anguish of burden of proof that he has complied with his tax obligations. Since we are unable to achieve voluntary compliance, we try to achieve audit-induced compliance. This is an important role of the audit function.

INSPECTING SERVICE

Another important role is played by a class of tax auditors designated Tax Inspecting Officers. In addition to the traditional audit function which they perform like their other professional colleagues, they operate also like an independent, objective and fact-finding arm of the Head Office, charged with the responsibility for detecting any mis-management and corruption in the Area Offices which they visit on circuit. They re-examine cases already dealth with by their Area Office colleagues and report their findings to the Head Office.

More specifically, they perform integrity-related function. It will not be too simplistic to say that the Head Office often relies on the Inspecting Officers' reports for the evaluation of events in the Area Offices and, to a great extent, bases its decisions on them for promotions and transfers.

INVESTIGATION AND BACK-DUTY SERVICES

Finally, the Investigating Officers about whom a reference has already been made above: They complete our assessment of the role played by audit function. They are perhaps our greatest single safeguard against tax avoidance and its twin sister, tax evasion. They are reputed to spending a great deal of time, sometimes up to or exceeding six months, investigating a case of suspected or alleged avoidance or evasion even of a negligible amount. As regards the services of Investigating Officers in our effort to curb the menance of tax evasion, we do not always try to match costs with benefits. Their effectivenss in dealing with tax frauds usually through back-duty investigation instils fear in the dishonest taxpayer, fear of later discovery and punishment. This acts as a deterent to dishonesty and falsehood and so increases the level of compliance.

COLLECTION FUNCTION

This is the last of the three phases into which the levying of tax can be divided. The first phase is the assessment or the definition of the exact amount of income subject to tax, and the second is the computation or calculation of the amount of tax due.

GENERAL CHARACTERISTICS

It has been recognised that the sum-total of the achievements of any tax administration consists in reducing the gaps 1/ between:

(a) Potential taxpayers and registered taxpayers;

(b) Registered Taxpayers and complying taxpayers;

(c) Potential tax and declared tax

and (d) Declared tax and paid-in tax.

Within the limitations of non-mechanisation of its functions, our collection system performs parts of (a) and (c) and all of (b) and (d). It maintains a master list of registered taxpayers;it determines the discrepancies between the registered taxpayers and those who actually comply and, of course, the difference between declared (whether assessed, withheld or otherwise due) tax and paid-in tax. What it cannot do at the moment is the determination of potential taxpayers and, for that matter, the potential tax due from them. We have not carried out any measurement programme aimed at determining them probably because the facilities and resources for empirical enquiries are yet to come by. However, if a tax collection system can achieve three out of four basic functions of tax administration, its role and importance are not in doubt.

1/ Dr. Pedre Pavessi and H. B. Wencelblat:
The future of Important Collection Function on
Tax Administration 1981.

POTENTIAL TAXPAYERS VERSUS REGISTERED TAXPAYERS

Our collection unit maintains a master list of all registered taxpayers and recipients of incomes and payments subject to tax deductions at source. It also maintains some registry of potential taxpayers on occasions when their identity is revealed by any form of information;otherwise information on them is not enough to identify them. This is the reason why we cannot quantify the extent of our compliance nor determine the size of the "Black economy". Black economy has been defined by J. A. Kay and M. A. King 1/ as "all those areas of legal activity from which tax is properly due but from which it is not collected because the income in question is not declared".

However, regardless of the dearth of statistics, we know that a large scale non-compliance abounds in our society and that there is an abundant evidence of the growth of black economy enough to cause a real concern. There are non-tax parameters for determining their existence and trend. In a progressive taxation system like ours, it isexpected that a proportionate growth in the GDP will result to a more than proportionate rise in tax revenue;that is, that income taxation is income elastic. But this is not usually the case. Between 1974/75 and 1977/78 the average growth rate of our GDP was 20% but the total Federal Government direct tax revenue rose only by 17.7%. Further, the Nigerian public itself knows that it is not well disposed to tax payment. If Government proposes a social amenity for a community and announces the enumeration of the people of the area in order to determine the size of the amenity's user-population, it will usually add in the announcement that the exercise has nothing to do with income tax. Otherwise, no one would like to be counted for the fear that the list would be used for tax purposes.

MULTINATIONALS

Whilst on the problem of measuring non-compliance and the black-economy, perhaps I may digress on the radiional non-compliance of the multinationals. I do not think there is any tax administration yet which is satisfied with its ability to secure any tax compliance from them.

The problem of multinationals is not a collection issue perse but it helps to distort the picture of the relationship between the volume of business and economic activities and the tax revenue generated from the activities in the country in which the multinationals operate. It is suggested that their problem may be overcome through co-operation between tax administrations of the countries in which they operate. We wish ourselves good luck in this regard.

REGISTERED TAXPAYERS AND COMPLYING TAXPAYERS

As stated above, our collection unit is the custodian of master list of registered taxpayers. The registry has all the relevant particulars of the tax-payers including nature of each taxpayer's income and whether the income is subject to direct tax assessment or tax deduction at source. From the collection registry or list, it is easy to determine the taxpayers who have complied and those who have not and who should be subjected to normal enforcement sanctions.

1/ The British Tax System - OUP, 1983.

DECLARED TAX AND PAID-IN TAX

We have no self-assessment principle and it is not usual to restrict a taxpayer's tax assessment to the amount of tax declared by him. In my conception, declared tax is taken to imply, in respect of income subject to direct assessment, the assessed tax in the collection list and, in respect of income arising from payment subject to tax withholding at source, the tax withheld and notified.

Narrowing the gap between the assessed tax and the paid-in tax that is, enforcement function, is probably the most important collection function. It consists in compelling payment obligations and, where compliance cannot be obtained on timely basis, institute formal sanctions such as the addition of statutory penalties and interest on outstanding tax. If a taxpayer fails to pay the tax assessed on, or due from, him within the statutory time limit, a fine of 10% is added on and thereafter interest at the prevailing commercial rate is also added on before the case is transferred to the court for collection under judicial procedure to be effected.

JUDICIAL ENFORCEMENT

Legal prosecutions are traditionally delayed, time-wasting and intolerable. But to insure that revenue cases are given the priority hearing they deserve, the Federal Government established a Revenue Court, now Federal High Court where we may obtain judgment on the tax debts. Enforcement of judgment debts may include, distraint on the property of the delinquent taxpayer. Further, the tax laws also confer on us a privileged position among the other creditors of the tax payer in the event of bankruptcy, dissolution or liquidation.

Some tax offences are regarded as misdemeanour and tried as criminal offences. Thus where an offence is one of failure to file a return on time, or understatement of income, or refusal to furnish information, the courts may award really heavy penalties including imprisonment.

DATA SYSTEM

Our data system is still not fully developed. Only a limited use is being made of it beyond the preparation of the master list of taxpayers. However, it records and analyses information on the collection of assessed tax and arrears, discharges and standover orders.

INFORMATION FUNCTION

I have chosen to treat information last in this paper because I know that by the time we have gone through the Audit and Collection functions it will have become apparent that Information is a fundamental resource in any tax administration.

We have seen all along that tax administration needs information for practically every thing it does. However, most of the information resources we have so far examined are those directly needed to assist the tax auditors and Collectors in the definition of the exact amount of tax-payer's income subject to tax and collection of the assessed tax. Information needed for purposes of management, though coming also from the same primary sources, often needs to be analysed and presented as statistical facts.

For instance, since we introduced the withholding of tax at source and the obligation for filing of relevant information returns by payers of certain incomes such as rents, fees, dividends and interest, it has become easier for the tax auditor to correlate the information obtained therefrom with that provided by the taxpayer on his return and to query any discrepancy. For management purposes, the important thing here is that a comparison between the taxpayer's return and the information filed by the payer of the income shows the degree of non-reporting or under-reporting of such income and when this information for all taxpayers is put together in data form and analysed, it reveals to the Management whether or not the withholding tax principle is successful and whether the principle should be extended to more classes of income or whether greater taxpayer education is desirable etc.

Recently we have extended the application of the withholding tax principle to many more classes of income which suggests eloquently the success and cost-effectiveness of the principle. Finally a good tax administration requires a careful attention to the planning and development of an information system that will provide the means for monitoring and evaluating overall performance against its set-plans.

Mention has already been made of the non-audit function of the Tax Inspecting Service who provide vital management information on staff matters which may be used for a more realistic staff deployments, promotions and better allocation of responsibilities. Further, from the data provided by the reports of the Inspecting Service statistics may be tabulated to show the state of the image of the tax administration and whether anything is required to be done to correct taxpayers' impression of our administration.

RESEARCH AND PLANNING

This is the nucleus of the statistical and ADP unit referred to under COLLECTION. As I said earlier on, we are quite aware of the possibilities of ADP in providing information for management and policy making such as providing standards for testing performances, preparation of analysis of information obtained from primary assignments and research programmes conducted to determine the extent of taxpayer compliance or to measure benefits against costs of proposed tax measures; though these are being pursued the unit is still handicapped by paucity of facilities.

However, the unit is important in its potential development of taxpayer service and education. Our taxpayer service, until recently, is nothing to go by. Majority of our taxpayers were ignorant of the tax laws and it is impossible to take them along with us in our effort to raise the level of compliance. It has been rightly argued that one of the reasons for our low taxpayer compliance is that the taxpayers are not sufficiently educated in their tax responsibilities and the reason for paying tax. We have since mounted up a bold taxpayer service programme, and it is thought that with it we can promote good public understanding and with understanding we will achieve voluntary compliance. It is also hoped that many taxpayers would be willing to volunteer information about themselves and their neighbours if they were positively given sufficient awareness of the consequences of their failure to give such information at their disposal.

TAX CLEARANCE CERTIFICATE

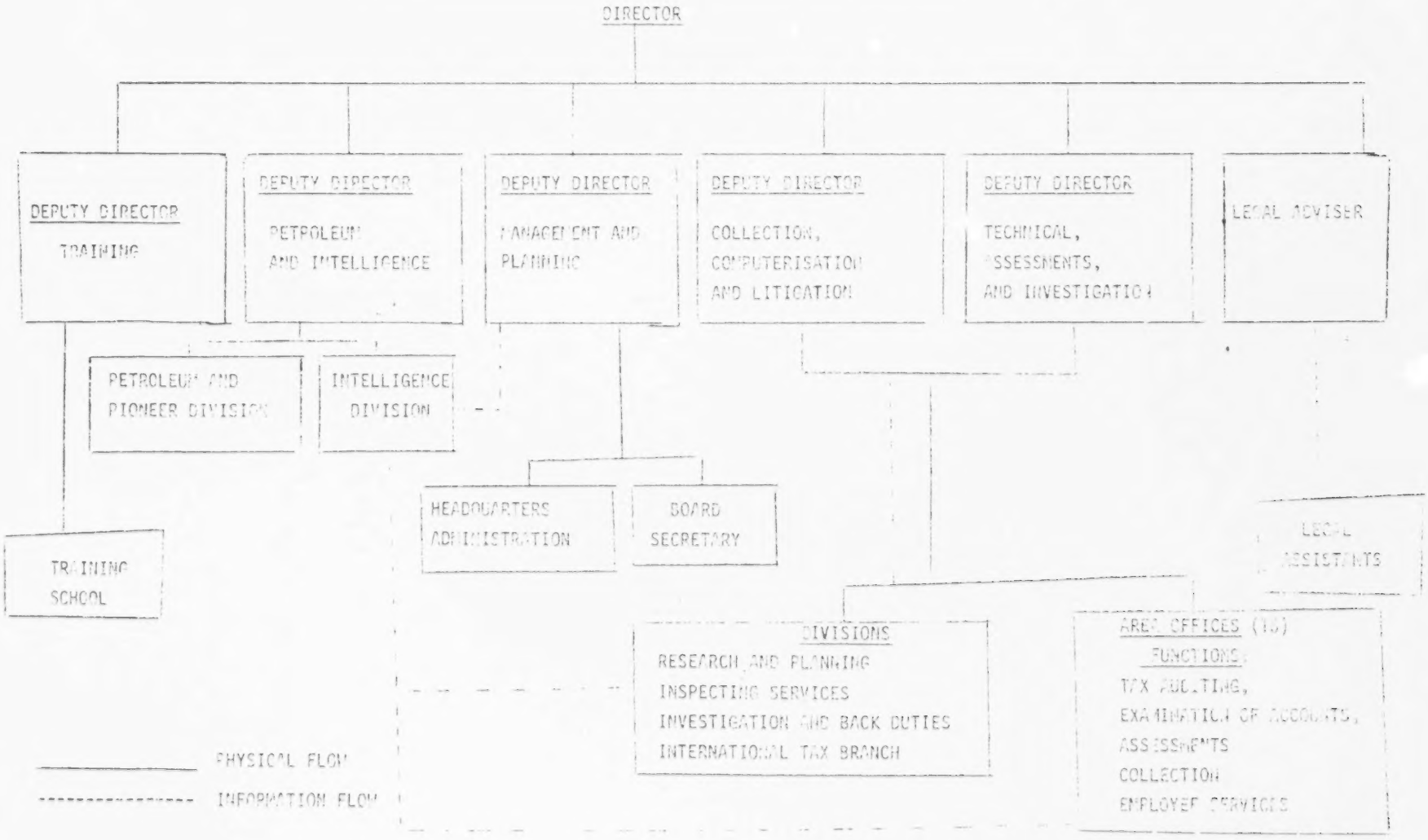
Finally, it is only fair that in a write-up on Auditing, Collection, and Information functions mention must be made of a recently established phenomenon of tax clearance certificate. This phenomenon does not form a separate source of revenue; it cannot even be said to have affected in any large measure, the quantum of tax revenue collected. However, its importance lies in its tendency to promote voluntary compliance and provision of voluntary information. There is now an interminable range of transactions in Nigera which no person, individual or corporate, can embark upon or be involved in, without having to present a certificate showing that he has paid his tax for the preceding three years. The requirements of tax clearance certificate have moved people, for the first time ever in our tax history, to come forward voluntarily to declare that they have earned some income on which they need tax assessments in order to obtain tax clearance certificates.

CONCLUSION

This paper has been longer than I intedcd and I do not wish to make it any longer by summarising the points made therein.

However, I wish to emphasise just this point; and this is that our own tax administration surveyed in this paper is taken in its most general sense that the successful performance of our organisation is the result of the combination of the efforts of all categories of staff irrespective of distinctions in the functions performed. Total taxpayer compliance, whether practicable or elusive in our life time, is our souls' sincerest desire and we believe that it is only the combination of the expertise of all categories of staff that can ensure the realisation of this goal.

ORGANISATION CHART OF THE FEDERAL DEPARTMENT OF INLAND REVENUE



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The Role and Importance of Management Information Audit and Collection in Tax Administration in Egypt

The Role and Importance of Management Information, Audit and Collection in Tax Administration in Egypt

Noncompliance with tax laws takes a variety of forms. When a citizen is required to file a tax declaration he may fail to do so willfully or out of ignorance of the law. The measurement of noncompliance in this case is important in that it allows the tax office to identify the more important areas of the problem, in terms of the numbers of non-filers nationally and in terms of revenue lost annually, and to devise programs for reducing noncompliance in this area. Measurement programs may identify particular economic sectors of the taxpaying population. Non-filing of declarations by small merchants, farmers and casual laborers are some examples of these sectors of society and patterns of noncompliance which might be revealed by a thorough measurement programme.

One approach for estimating or measuring the extent of the problem of non-filing is to compare ficures representing the total of all incomes already reported on tax declarations with macro-economic data assembled by government economists and statisticians on national income during the same period. Such comparison can reveal for the country as a whole the "gap" between actual income and income reported by taxpayers. Although such approach is invaluable aids to tax administration, it suffers from several drawbacks:

First, accurate measurement requires readjustments between the concept of (income) used in national income statistics and the concept of (income) corresponding to the tax base of the country's income tax law. Second, national income statistics may lack the detailed breakdown of data according to economic sectors and income levels which will enable a tax office to identify the most serious areas of noncompliance. Lastly, national income statistics may not be accurate enough to provide a reliable basis for measuring noncompliance.

Other approaches to measuring noncompliance may play an important role, if only to supplement and validate the results of studies based on national income statistics. A comprehensive measurement project may be undertaken by a research team to prepare empirical studies of income tax compliance proceeding either by intensive audit of a sample of all income tax returns, or by a comparison of income estimates with income reported for tax purposes. But these studies have certain inherent limitations because the project would make an intensive study only of a particular area, it would not afford results that could be generalized nationally, however it might disclose the anatomy of noncompliance in greater detail than other approaches and that it might suggest a methodology that could be used by others to give definitive answers as to the degree of noncompliance of a certain sector-of-income of a small block of income-tax universe. Results obtained would be checked against the returns rendered and nonreporting of income would be translated into noncompliance with tax obligations. Expanded auditing effort by networth evidence may be an obvious remedy in this area.

Programming and planning of such servey or study may be directed by the Tax Commission's programming Committee headed by the Executive Director and a team of experts within the Planning and Research OFFICE of the Tax Department for finding and analyting the facts and evaluating the survey results.

To specify the data sources, the reliability of data may depend on the assistance of the Bureau of the census and Statistics and the Statitstical Center of the the Universities and other organizations in each country.

Other kinds of data sources may be provided:

1) Yaching programmes: regularly checking information returns of most payers against tax returns of income recipients (Regular information-at-source systems)

2) Inheritance and estate tax returns provide valuable clues on income of decedents, heirs, attorneys and administrators.

3) Every state has a list of licensed doctors, druggists, dentists, registered nurses, osteopaths, optometrists, licensed brokers, funeral directors and many others Ministry of Health or Ministry of Agriculture may have lists of every restaurant, dairy and farm whose cattlehave been examined. The Highway Department and Municipalities have the names of the contractors and transportation companies. Unemployment compensation Departments may have information worth checking.

4) Annual statements from recording companies of all dividends, interests and royalty payments and their distributive shares.

5) The bar associations have a list of most practising attorneys and accountants.

6) Turf clubs lists of names and addresses of owners and amounts of purses, lists of members by farmers' cooperatives and growers' associations . . .

7) Amounts of rental payment to the landlords of buildings can be checked with comparable data from property - tax data and records of the Register of Deeds.

The provisions of an income tax law must be designed to give the government the means for identifying those who should file tax returns and for providing income information. The income Tax witholding system is an important means for identifying the taxpayer and for providing information about his income.

The tax law may provide other means for identifying the taxpayer:-

1. A Master List of taxpayers. The law may provide that the tax administration shall prepare a list of all those who may be required to file returns of income and to maintain this list on a current basis. If no such return is received, the master list could be used to send a reminder to each delinquent taxpayer that a return has not been received and to ask for an explanation. Such a list could also serve as a basis for mailing return forms before the filing date as a filing stimulant.

Individuals and companies could be required to report such events as the dissolution of business, the formation of new business, the hiring of employees at salaries above the minimum return amount, and deaths.

The law should empower the administrator to investigate door to door and to study automobile registrations, telephone subscription lists, country club membership lists, foreign travel lists, real property registrations, import and export permit requests, bank accounts and any sources that might indicate a person has to be declaring his income.

2. The information return is a return by a person who has economic information about one or more potential taxpayers, and who has the obligation to report this information to the Tax Department reporting by third parties will provide a measure of compliance on the part of taxpayers. Those required to submit information returns will be the larger economic factors in the country such as banks, commercial business and government entities and those who may be aware of or participant in a transaction such as public recorders, registers, associations, holding companies and cooperatives.

3. The taxpayer identification number system requires that numbers be assigned to all taxpaying and information-reporting units, and only one set of numbers is used for all purposes (such as social benefits or certificates of identification) requiring that they be used in legal documents and to identify bank accounts and property registration. In a country without a data processing system the use of numbers without names involves dangers, because it can produce complicated errors.

4. Self-Identification Requirements: The law can require that the taxpayer identify himself and submit proof of tax compliance before the government and other institutions will act in his affairs, thus he may be compelled to prove that he has filed his tax returns as a condition for the issuance of a passport, for the transfer of real property, for the registration of an automobile and for the issuance of a business license or customs permit, and that any punishment for violation would be against the official who issues such documents.

As to the possible impact of such projects or means used for identifiying taxpayers upon relation between them and the tax administration, is that these excessive means would produce an oppressiveness that would inevitably become counterproductive. This possible applications should be exercised in limiting them to the areas in the economic life of the country which would likely catch the errant taxpayer, this may help to "humanize" tax administrators in the eyes of the taxpaying public and thereby gain a more acceptance from taxpayers.

The problems in obtaining information on non-filers from third parties are:

1. The secrecy of such information should weight the current social value of each country. The access of third party records must conform to the constitution and custom.
2. Certain information is considered privileged from forcible disclosure such as the information obtained by a doctor from his patient, a priest in a confession and a lawyer from his client is normally outside the flow of tax data.

3. Certain information is inefficient because of its limited character in the case of the absence of any comprehensive reporting system on property transactions, and large scale evasion may be enacted through under-statement of profits and property income.

4. Information returns often require listing of all transactions of a certain kinds (e.g. dividends) with other taxpayers during a certain period. This record cumulative information puts a heavier burden on the informants to keep reliable records of transactions over a particular period.

5. The burden of supplying information may be strongly resisted by the public especially from individuals rather than large business firms, and the task of enforcing compliance may add to the tax bureau's already heavy burden of enforcing taxpayer's obligations to file returns of their own taxable transactions.

6. Finally the task of actually utilizing the information obtained from third parties may greatly complicate the tax bureau's problem of handling evoluminous amounts of data.

Measuring the costs to informants and the tax bureau of filing out and processing the returns, these costs must be compared against the benefits to the tax bureau and society as a whole of the increase in compliance levels which the system may lead to. The fairness and efficiency of the administration of the income tax system depends on the acceptance of two kinds of responsibility the responsibility of the Department of Taxation to interpret and apply the law in a uniform and impartial manner, and the responsibility of the taxpayer to make an honest self-assessment each year of the tax payable by him under the law.

Most taxpayer accept this responsibility and pay the tax demanded by the law. Unfortunately, some seek to avoid or to evade payment of tax and special attention must be given to their returns. The tax compliance arm of the Tax Department in Egypt is made up of two investigative forces:

The first of these forces are the regular audit and verification staffs whose works is designed to ensure the uniform application of the law. Where there is evidence of evasion the case is referred to the Special Investigation staff. Its main responsibility is to investigate suspected cases of tax evasion for the purpose of obtaining evidence of any criminal offence that may have been committed and where such evidence is found, to prepare the case for prosecution in the courts according to the tax law. Special investigations work is usually generated from information indicating the possibility of an offence, which comes from various sources such as:

a) Taxation auditors and assessors as a result of their normal verification of income declared by taxpayers.

b) Special investigators investigating the affairs of other taxpayers.

c) Collection officers and other members of the Department as a result of the performance of their normal duties.

d) Planned programs through which an occupation or trade is surveyed, and information provided to audit staff or investigators for verification by cross-checking through taxpayer's records and returns. Such programmes are undertaken in all categories of taxpayers in all areas of the country are surveyed from time to time.

e) Newspaper reports, public records, observation of styles of living or any unusual circumstances which attract attention.

f) Informers All communications received from informers are dealt with in the strictest confidence. Information so received is used or verified in the same manner as any other tax evasion lead. There are situtations when, it is necessary to obtain statements of assets and liabilities (net worth) from a taxpayer so that an adequate review of his taxp position be made. Some of the factors considered to warrant obtaining such statements are as follows:

a) Returns have not been filed, or records are not non-existent or inadequate.
b) A tax fraud offence is indicated.
c) Reported income is inconsistent with individuals standard of living.
d) Information indicates the individual may have access to unreported income from illegal activities.

Under the provisions of the tax law, an investigator may seize and remove available records and documents from a taxpayer's premises. Investigators who have been authorized to seize records under this law have been issued a special authorization signed by the Minister.

Voluntary Disclosures: It is the policy of the Tax Department to encourage voluntary disclosures. Any person who has failed to file a return required under the tax law, or who has filed false returns and subsequently makes a voluntary disclosure pertaining to those returns that is as complete as can reasonably be expected in the circumstances, will be permitted to settle his liability by paying the tax and interest due according to the law. This does not waive late filing penalties, late remittance penalties, nor interest for late payment. However, a voluntary disclosure will be subjected to verification.

Publicity: The Tax Department believes that publicity in all news media on the cases taken to court provides a means of obtaining increased compliance with the law through the deterrent effect of such publicity on taxpayers who might be tempted to indulge in tax evasion and through the probable incentive on other tax evadors to make a clean breast of their offences.

The Department considers that it has a duty to the taxpaying public to inform them of the operations and results of its programme directed at searching out and prosecuting tax evadors. Accordingly statistics of prosecutions, fines, prison terms and recoveries will be published periodically.

Making Tax Information Available:

The publication of basic tax information would be useful primarily to the tax practitioner. This information consists of the texts of laws, decrees and regulations, the rulings of the tax administration and the report of decisions in tax matters made by special tax tribunals and by the general courts. A different type of information must be specially provided to the taxpayer. In most cases, the actual text of the complete tax law would serve only to confuse him because even a well educated taxpayer would find it difficult to discover the provisions applicable to his situation, and if he did, he might not understand them. Therefore, the law should permit the tax administrator to issue releases to the press, to publish and broadcast announcements, and to

distribute pamphlets that contain material specially prepared for taxpayers. This material, written in clear language and printed in a legible format, may be posted on public display at banks, post offices, stores, police stations and any other places where it will come to the attention of the public. Furthermore, tax declaration forms should be accompanied by instructions that will enable the average person to complete them, that is the requirements of the substantive law and the procedure for filing and payment should be clearly explained. The information should also describe briefly the penalties for noncompliance and fraud and the powers of the government to comple compliance and to push tax offenses.

Whenever the government takes some action with respect to a taxpayer, it should unless it is dealing with a professional representative, make available to the taxpayer, in the form of a phamplet or letter, an outline of the basis for its action and the rights of the taxpayer at that stage of the proceeding.

The taxpayer should be advised in simple language how he should proceed in the event that he disagrees with the government's action, whom he must see, where that person may be found, and how soon he must proceed. If the taxpayer must use some particular form, a copy of the form should be delivered.

Tax systems in Egypt may still be faced with the problem of how to deal with the small income taxpayers and the hard-to-taxpayers who do not keep adequate books of account. One solution is that of giving up the iidea of assessing the actual income and replacing it by the taxation of an estimated income.

We recommend that the use of estimating methods of the taxable income should be stric.ly limited by statute to those taxpayers such as small business who definitely cannot be expected to keep books of accounts and in our own opinion, the Revenue is not legally entitled to lay down rules for estimation of taxable income of groups of taxpayers on the basis of an artificial percentage of their turnover or their expenses, unless such rulers have been expressly provided by statute or the Finance Minister has been empowered, as in the Egyptian tax system, to issue rules for the estimation of the taxable income of some groups of taxpayers.

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